INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 23 January 2020

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue to make net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Today the Governing Council also decided to launch a review of the ECB's monetary policy strategy. Further details about the scope and timetable of the review will be published in a press release today at 15:30 CET.

The incoming data since our last meeting are in line with our baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation in line with expectations.

The unfolding monetary policy measures are underpinning favourable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are supporting consumer spending and business investment. This will sustain the euro area expansion, the build-up of domestic price pressures and, thus, the robust convergence of inflation to our medium-term aim.

At the same time, in the light of the continued subdued inflation outlook, monetary policy has to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. We will, therefore, closely monitor inflation developments and the impact of the unfolding monetary policy measures on the economy. Our forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.3%, quarter on quarter, in the third quarter of 2019, following growth of 0.2% in the second quarter. This pattern of moderate growth reflects the ongoing weakness of international trade in an environment of continued global uncertainties, which has particularly affected the euro area manufacturing sector and has also dampened investment growth. At the same time, the services and construction sectors remain more resilient, despite some moderation in the latter half of 2019. Incoming economic data and survey information point to some stabilisation in euro area growth dynamics, with near-term growth expected to be similar to rates observed in previous quarters. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become less pronounced as some of the uncertainty surrounding international trade is receding.

Euro area annual HICP inflation increased to 1.3% in December 2019, from 1.0% in November, reflecting mainly higher energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to hover around current levels in the coming months. While indicators of inflation expectations remain at low levels, recently they have either stabilised or ticked up slightly. Measures of underlying inflation have remained generally muted, although there are further indications of a moderate increase in line with previous expectations. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term, inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and solid wage growth.

Turning to the **monetary analysis**, broad money (M3) growth stood at 5.6% in November 2019, broadly unchanged since August. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3 relative to other financial instruments. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the ongoing support provided by our accommodative monetary policy stance, which is reflected in very low bank lending rates. While the annual growth rate of loans to households remained unchanged from October, at 3.5% in November, the annual growth rate of loans to non-financial corporations moderated to 3.4% in November, from 3.8% in October, likely reflecting some lagged reaction to the past weakening in the economy. These developments are also visible in the results of the euro area bank lending survey for the fourth quarter of 2019, which indicate weakening demand for loans to firms, while demand for loans to households for house purchase continued to increase. However, credit standards for both loans to firms and loans to households for house purchase remained broadly unchanged, pointing to still favourable credit supply conditions. Overall, our accommodative monetary policy stance will help to safeguard very favourable bank lending conditions and will continue to support access to financing across all economic sectors and in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding **fiscal policies**, the euro area fiscal stance is expected to continue to provide some support to economic activity. In view of the weak economic outlook, the Governing Council welcomes the Eurogroup's call in December for differentiated fiscal responses and its readiness to coordinate. Governments with fiscal space should be ready to act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now ready to take your questions.

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Two questions for you. Firstly, trade seems to be the order of the day or the order of the week. What do you think about the prospects of a potential trade war between the US and the EU? Does that seem more or less likely since the start of the year?

Secondly, I'd like to hear your reaction to Sweden ending its experiment with negative interest rates and whether you think that markets are assuming you don't have the potential to cut further, and they're signalling that the next rate rise will be upwards rather than downwards. Are they correct in that assumption?

President Lagarde: That's three questions in a row. Okay, on the trade front, I think you're quite right in signalling that trade is actually an important element in our considerations and particularly in assessing the downside risks. I think one critical development since our last meeting in late December has been the conclusion of phase one of the negotiations between US and China. That in and of itself has a variety of consequences. It has consequences in relation to uncertainty. It certainly has slightly reduced, if not vanished, but it also has consequences in terms of international trade at large, and indirect consequences for those regions or countries around the world from which trade will be diverted in order to deliver on that phase one. This is something that our teams are looking at very carefully to assess exactly what will be the impact on the net basis for the euro area.

In terms of the trade relationship between the US and the EU, I took some comfort from the meeting that was concluded a couple of days ago between the President of the European Union Commission, Ursula von der Leyen, with the President of the United States. While we all know that the results of those meetings are preliminary, the tone and the determination on both sides to draw positive conclusions from that meeting and to indicate determination to pursue the negotiations and the approach to the trade relationships between the EU and the US, I think, is to be taken as a positive signal. I know that the President of the Commission will be visiting the United States in February. I would expect continued work to be ongoing between the parties by then, and hopefully some positive developments out of that February visit. Clearly, we're going to monitor that very carefully and see what the signals are with due consideration for the limitation of signals relative to what the outcome of final negotiations can be.

In relation to the setting of rates, particularly by Sweden, I think I'll leave it to the Swedish central bank and to Stefan Ingves to actually indicate on what ground, for what reason there was a determination to actually return, for the moment at least, to a zero interest rate. My understanding of this conclusion is that there had been a positive outcome of that period of negative interest rates. And drawing from that, given the economic circumstances and the inflation expectations, it was legitimate and their decision to actually return to the zero rate, where they are at the moment. Every region and every country has its idiosyncrasies and rationale. I think comparisons in that respect are odious, as we all know. Clearly, everybody is going to look at what conclusions are drawn from that monetary policy reversal, if you will, in Sweden but I wouldn't draw any conclusion as far as our policies are concerned.

As I said very clearly I think in the introductory statement, the Governing Council is going to be very attentive to any and all developments in all directions, both in terms of growth but obviously in terms of inflation, which is our measurement of price stability, and will take whatever measures are necessary, as appropriate, in order to respond to our imperative to deliver on our mandate of price stability. That was a bit of a long-winded one but you had three questions in one, so it had to be long.

President Lagarde, a question about the inflation target. Do you agree with your predecessor that the inflation target should be viewed as symmetric? I'm also curious about your view on the suggestion of creating a target band around two per cent.

Then a question on the risks: you said that the risks remain tilted to the downside, but less so; was there some discussion about maybe saying that risks are now balanced?

President Lagarde: On the inflation target, we have a policy by which we operate. We have a strategy that was defined and that has inspired the policy decisions that were made and that have been made up until this day. That will continue to inspire the policy decisions that are made until a strategy has been adopted – which is a while from now but I'm sure you'll have questions about the strategy. In that respect, I would just adhere to what that strategy was, what its developments were over the course of time. I think the point of symmetry is very clearly referred to in the introductory statement. One press conference after the other, so I would refer you to that. You very gently nudged me into having a view as to whether there should be a band, as to whether there should be this, that or the other. I'm going to refrain from that. I know that some commentators would love me to disclose my principles, my views and my philosophy. I think it would be largely unfair to the strategy review exercise that we are embarking upon as of today. I do have my views, as have other members.

My mission as President of the Governing Council is to harness all the views around and to make sure that we come to as close as possible a view that is shared by all, in order to have as consistent and as effective a monetary policy in order to deliver on our mandate. As I said last time around, we are going to look at many issues. Multiple views will be proposed. A lot of hard work is going to be put into the exercise, but I would not exclude, preclude or anticipate how we are going to deliver, because that's the point of our strategy review exercise; it's how we deliver.

Now, you asked me about the risk tilted to the downside, and how much tilted to the downside but less so than last time around. I think one of the key considerations we had on our mind was indeed the change in the level of uncertainties about trade and trade relationships, and the expectations we have that those uncertainties will be dealt with, hopefully in the future with the same type of approach… negotiations rather than adversarial positioning. Was there a discussion as to whether it was closer to balance than it was tilted to the downside, but less skewed than it was? Yes, we always have those discussions and that's, I think, completely justified because of the very mixed picture that we have of the economy. If you focus on certain signals, or if you focus on certain indicators or certain surveys, then you could have less downside. If you focus on others, you could be a little bit more downside. So we tried to arrive at exactly what we thought collectively, unanimously actually, was the right level; which was still to the downside but less pronounced than it was at our last press conference. We still have uncertainties, let's face it.

What would be your advice for German savers? They lost billions of euros. Should they buy shares, real estate, or should they spend their money? They suffer from insecure pensions; what should they do?

President Lagarde: You know, I wish I was a financial adviser but in my position, I am not. I know that Germany has plenty of terrific financial advisers, excellent bankers and they will not be short of good advice to their customers. I would simply say that the role of the European Central Bank and the Eurosystem at large – which includes all national central banks – is to deliver on price stability. One of the avenues for delivery of that price stability is to make sure that there is growth of our economies and that that growth is sustainable and solid. The study and the work that has been done internally at the ECB demonstrates that because of the monetary policy, including very low rates and possibly negative rates, because of that monetary policy, millions of jobs were created throughout the euro area. Growth was higher because of that so that's a very, very strong argument to explain why monetary policy had to be what it is.

As you have noted, in my introductory statement – and I don't differ from my predecessor on that front – I think having amplifiers of our monetary policy by having the right fiscal policy, be it by way of additional spending or reduced taxation, for those countries that have the space to do that would certainly help in that regard.

I have a question on the strategy because at the beginning of your tenure you said, "I want to dust off the language of the Bank to help the citizens to understand what the Bank is for." Now, most citizens, whether they are savers or borrowers, they have just one thing in mind; when

will the ECB raise the rates? The one announcement you are doing today is; yes, we will launch a new strategy. Could you maybe explain right now in simple words to these people; why is it so important to review a strategy, because maybe it's not very evident for them to understand this long-distance exercise?

My second question, a question on Davos. When you were Managing Director of IMF, the world was waiting at your verdict on global growth at the opening of Davos. Now you are flying to Davos after this press conference, but a bit at the end of the journey. A similar question: would it be not accurate to skip the January presser so you and the members of the Governing Council will have more time to spend in Davos and then meet the elite and the VIPs of the world? It will be the same each year; the calendar is like it is. Maybe more generally, do we need eight pressers per year, because a lot of analysts think, when you see the previews of the analysts, it is often no change, no change, no change for this year. Could be different in the future, but would it be something maybe the strategy will discuss on the frequency of the monetary policy meetings with the presser?

President Lagarde: Well, first of all, I regard our Governing Council, our deliberations, our scrutiny of the economy and our determination to deliver on price stability as our mission and my mission. Yes, there are very interesting phenomena going on in the world. There are great conferences and great seminars to attend. But when something as important as our Governing Council meeting is scheduled, I don't see any reason why we would change it. We will see whether next year or the year after and so on and so forth, whether we need to reorganise a timetable, but at this point in time, frankly I think it would've been unwarranted, to say the least, to change anything. That's point number one.

Point number two, on the scope of the strategy: we are going to review a whole host of issues so yes, it will have to do about how we deliver, how we measure, what tools we have, and how we communicate. It will really encompass the entire communication approach when it comes to decision-making, to publication, to the use of language that we have, to the outreach, to the engagement with all stakeholders. All of that is going to be part and parcel of the strategy, so it's a broad exercise. I think it touches on your first point: my commitment was really to be able to listen to the expectations of the people, to better understand their economic concerns and their imperatives, and how we can deliver on them. We will continue to benefit from the work of the researchers, of the top-notch economists, of the academics and, yes, their views will be harnessed at various events that will take place in the course of 2020. But it is also going to be our task and our goal to listen.

That resonates with those of you who know how the Fed has organised its “Fed Listens”. We will be different because 19 member states do not all speak the same language. If we want to reach out to people, we are going to have to use people's language, literally. It will involve all the national central banks, which will be also active participants in the process. That's what I mean by including, reaching out and addressing the concerns. Now, I take your point about the interest rates. I think that I have addressed that point earlier on by indicating that we have to use all the instruments that are available and that are proven to be effective – we will measure effectiveness, by the way – in order to deliver.

President Lagarde, you've said before that the review will last until the end of the year. Assuming that that's still the valid assumption, how do you plan to mitigate risk in the interim about creating uncertainty over the ECB's policy, since the policy implications of the review are

not yet clear? For instance, is the view that the ECB can't or won't raise or cut interest rates as long as the review is being discussed, justified?

My second question is about tiering, especially since the next reserve maintenance period is in six days. I'd like to know what the ECB has learned from its experiment with tiering so far since September, whether you're satisfied with the impact on bank profitability and lending and money market rates, and whether what you consider the costs and benefits to expanding the pool of exempted deposits or raising the rate on them.

President Lagarde: You know, I have a very simple-minded approach to your first question. It will be over when it is over. In other words, we will have a new strategy when we have concluded the exercise. Our expectation at this point is that it will take a year. Our hope is that we can agree on that new strategy of the European Central Bank around November/December. December, in my view, would be the probable date for the conclusion and the communication of our strategy. When I say it will be over when it is over, what it means is that in the meantime, irrespective of our deliberations, our consideration, or engagement with academics, with economists, with civil society, with European parliament and so on and so forth, irrespective of all that – which will progress in parallel and will keep a lot of people busy both here in Frankfurt and in the 19 national central banks – we will conduct the same usual exercise of monitoring, analysing, drawing conclusion about the macroeconomic situation, about the monetary situation, about the markets, because we look at that as well. Then we will draw our conclusions, which will be independent from the strategy review that we're conducting separately.

You had a second question, yes, the tiering. I don't think I'm disclosing any secret, because at the time, some of you commented about it. There were some Governing Council members that were a little bit sceptical about the effectiveness, the benefit, the justification of the tiering. I think the overall view – I think it was unanimous, actually; I didn't hear anything to the contrary – the unanimous view is that the tiering system is operating extremely well. There is no discussion at this point in time to change the limit of six times, as you know. But since September or since it was decided and as of the effective date, as you know there was instant movement. It has proven to be effective, no question about it.

I have a question on climate change, because you said early on that you want the ECB to play a pivotal role in fighting climate change, also during the strategy review, or including that in the strategy review. What does that mean concretely? What kind of things do you have in mind?

Then one other aspect; you were saying as well that you want to bring the ECB closer to the people. If we bridge that to inflation, there is a big gap between how people think inflation is actually developing and how inflation is measured in terms of, people feel that inflation is a lot higher. Would you also include real estate price development in a new inflation measurement, perhaps?

President Lagarde: On climate change, what I said, I say and I will continue to say is that it is everybody's responsibility, wherever he or she is, to see what he or she can actually do to fight climate change and protect biodiversity. I insist on the two components. Let me tell you what we already do, because it's not as if it's a newborn baby because I arrive; quite a lot had already been undertaken. I would refer you to an excellent speech that Benoît Cœuré had given back about six or eight months ago about these topics. I just want to summarise what we do, because there are always questions and testing of her views versus the rest. Things are actually happening. First of all, we have as you know an ECB staff pension fund and I'm looking at my paper because I don't want to give you anything that is wrong. We replaced the previous benchmarks for the equity funds by their low carbon equivalents. That came on the top of the selective exclusion and proxy voting guidelines that have already been in place for much longer than me. That's an add-on to what we had in place. It does not apply to a very, very sizeable amount; it's roughly €1 billion, but small rivers make very large oceans eventually when they are protected.

The second deals with the ECB's own funds portfolio and that applies to the ECB paid-up capital and the general reserve funds. Altogether that's roughly – that's a little over €20 billion. On that, we're investigating how climate change-related considerations can be better integrated than they are at the moment. As a first step, we have decided to increase the share of green investment held in the portfolio, subject to availability and liquidity of such funds, of course. Now, the third step has to do with our monetary policy portfolio, which is much larger. As you know, there is only a portion of that which is in corporate asset purchases. It's roughly, take it or leave it, €200 billion relative to over €2 trillion for the entire asset purchase programme. I think on that, the strategy is going to have to review what it can – what the Bank can do, should do, how much it collides with the mandate. If so, I think we should very expressly say so, but if it doesn't, I am giving you a for instance; it's not something that has been opined upon, that has been considered at all, but you can look at what ESG, for instance, criteria are respected by the issuers. You can assess the value of collateral in order to determine what is the risk associated with collaterals and so on and so forth.

Those are just a few areas. In addition to that, there is work also that is ongoing in various departments at the ECB to make sure that the climate risk is actually embedded in the work that they do in terms of risk assessment, in terms of models, in terms of their forecast. This is work in progress; it's not something that is completed and that is finished. I will, myself, finish with the area of financial stability because there is also work going on in order to define better stress testing. That framework normally should be completed at the end of 2020 at the latest. This is work that is internal to the ECB, and that is separate from what the SSM is doing as well separately. We also have, together with the European Systemic Risk Board, a pilot framework that is under review as well and which should be completed as well in the fall of 2020. There is a lot going on and as you will see in the press release that you receive later on – in a very short while actually – you will see that environmental sustainability is captured very well in the description of our strategy review. It's right in there; second bullet point.

You asked me another one? Yes, real estate. As I said, we will not leave any stone unturned, and how we measure inflation is clearly something that we need to look at. Are we going to resolve the issues? I doubt it. Clearly, the issue of housing and the distinction between the owner occupancy versus the non-owner occupancy, the reality and the perception, the difference between large urban centres and rural areas; all of that is infinitely difficult to apprehend and to calculate. But we need to look at it and we need to understand. If we believe that there is a clear miscalculation between what is there – which is roughly 6% of budget, if I recall – and what is the perception, we need to understand why. If there is a real difference, which there might well be, then we need to pass that on to Eurostat and have Eurostat do further and additional work. I'm not suggesting that it's going to be resolved in one year. When I was Finance Minister in France, we had our issues with the value of real estate and it took a lot of time.

I had a follow-up question on negative interest rates. It seems that there's growing scepticism within the Governing Council about the side effects of having interest rates below zero for a long period of time. We saw in the minutes from the last – from the December meeting, there was some discussion about this. Was that discussed again today? Are they concerns that you share, that negative rates have been in place for five years already and could be in place for years into the future? Are you concerned about the side – the impact of that on the economy?

The second question was how you view negative rates compared with QE as a stimulus tool. If the Eurozone economy were to slow during the course of the year, which tool do you think you might be – the ECB might be first – might turn to first to stimulate it?

President Lagarde: Am I concerned? I'm concerned about low rate, because low rate is predicated on low growth, and I would much rather have much higher growth, higher rates. This would be a really nice problem to have to deal with, but this is not the situation we have at the moment. You will see that as part of our strategy review, we are going to look at the potential side effects of the current circumstances, which are low rate – let alone negative – but we have had low rates for a period of time. That hampers our ability to respond in case of exogenous shock, as you know.

Slow growth: I think we'll cross that bridge when we have to cross that bridge, but as you also know, different tools apply to different portions of the yield curve. Let's hope we don't have to do that, because growth doesn't slow and growth continues to not only stabilise but accelerate in the going future. That would be a nice problem to have to deal with, but if it did not, then we really have to ask ourselves at which end of the yield curve we want to operate. That will determine which kind of instrument we want to use.

I have another climate change question. There was the Bank for International Settlements published a report beginning of the week. I wondered if you had had a chance to look at it and if you had any reaction to it. The main takeaway I think was that climate change is a threat to financial stability. I wonder if you agree with that premise. I gather from your earlier answer you do, but I would like perhaps your clear statement on that.

Then secondly, related question is: will the ECB wait for the strategic review before it incorporates any sustainability or climate change criteria into its monetary policy? In other words, would it wait to adjust the corporate bond purchase programme until the strategy review has reached some kind of conclusion?

President Lagarde: It's difficult to disagree with that finding of the BIS, that climate change is actually a threat to financial stability. What's more, it's that it's a threat and a risk that is hardly measured and taken into account by many actors. I believe that the action taken by the – suggested by the BIS, the action recommended by other central banks; I can think of Mark Carney from the Bank of England, for instance, are completely justified. I was personally very pleased to see that the private sector is actually also taking action in that respect, and certainly would welcome the involvement of other operators including their accounting firms and those that are setting the international accounting standards as well as the large asset managers, as we've seen. I think we badly lack harmonised measurement systems that can be generally accepted and that are actually implemented.

It is more of a personal view, if I may say, because it has not been debated in the Governing Council. I am not suggesting that I would sort of give you the ECB doxa on this matter. I would be surprised if they were very much against that position. What I tried to do when describing for you what we were already doing was to show that, while we might not be ahead of the curve yet, we are not sitting on our bottom doing nothing. We are taking climate change into account in order to improve the way in which we operate at the moment. Wherever we have the option to include climate change as one of our tools, we are doing so. It is going to be an important matter that will be debated during the strategy review. What impact does it have? What consequences should we draw? Where does it impact the way in which we operate? All those questions will have to be debated.

The last strategy review addressed an era where inflation was hard to tame, not hard to stimulate. Since then, technology, globalisation, even European integration have added an efficiency, but have undermined the inflationary pressures. How can this strategic review address this fundamental shift? What yardsticks do you think personally should be assessed first for their relevance in today's era?

The follow-up question: we can safely assume by now that ultra-low yields have not been enough of an incentive for governments, for fiscal spending for growth. Is there something more efficient, different that the ECB could do or influence in order to catalyse fiscal expansion? Or would it be considered too political? How central do you expect this issue to be in this strategic review?

President Lagarde: You're completely right in that the situation has completely changed from 2003. We published a study just before December that takes stock of the last 20 years of euro use and implementation and monetary policy delivery. For ten years, the goal was to fight inflation, because inflation was way too high. Then the financial crisis was the pivotal point at which eventually inflation was too low. It's been a reversal of the situation and requires in my view that we actually look at the strategy very carefully to see how effective we can be in view of the change of circumstances, some of which are structural factors that are here with us to stay. When you look at the ageing population, when you look at the low productivity, these are probably going to be with us for a long time. That justifies fully the need for a strategy review. We cannot operate as we did back in 2003 – which doesn't mean to say that we have to necessarily change this, that or the other. But we have to look comprehensively at the effectiveness of our monetary policy. One thing that I know is central and anchored in our considerations will be the mandate that we are given under the Treaty, which is that of price stability. That's the primary one.

On fiscal expansion, I would first of all observe that at the euro area level, there is a very mild fiscal expansion as we speak. I would also observe that two of the countries that have fiscal space, and I can think… You know who I am talking about. Two of those countries are now seriously looking...One has certainly gone pretty way out in order to explore how to expand more fiscally with their respective domestic budget. There's progress. We just need to all keep at it, not because I want to influence fiscal policy. It's for the budget holders to decide. It's for the authorities that have competence in that respect to decide, but simply because a good fiscal support would give much more effect to our monetary policy. That's why I think it's important that they do.

I have one question on climate change: you have raised quite high expectations on the future role of the ECB on the fight against climate change. Do you not fear that it will be difficult to deliver on that?

My second question is on policy-making: brought consensus in the Governing Council has some obvious advantages. But it might also have some disadvantages like group think or the ECB might be vulnerable for mistakes. For example, the Bank of England tried to have people in their monetary policy committee who challenged the existing views within the group. How important is it for you to reach unanimity or broad consensus in important monetary policy decisions?

President Lagarde: You know, on climate change: I know that we will have a debate and I know that there will be discussions and it's already out there, that debate. Is there going to be mandate creep? Isn't that going to be a distraction? Why should it be the role of central banks? If they do so, then yet again the legitimate authorities to implement climate change policies will feel that job is done, they don't have to worry. I'm aware of all that, but I'm also aware of the danger of doing nothing and I think that failing to try is already failing. We should at least try to explore every area where we can actually participate in a determination that is now the determination of the European Commission, of many of the euro area leaders, and which is now also creeping into the private sector. That's my personal take on that and I was very pleased to see that the environmental sustainability has found its right space in the monetary policy review that we are embarking upon.

I draw a line between consensus building and repressing alternative views, and I can assure you that we are not short of alternative views, right? There are multiple views around the table on multiple aspects of monetary policies. I am not a despotic President of the Governing Council; all views are welcome. All governors have their space and time in order to share their perspective and submit their views. At the end of the day, and at the end of the process, we still have to complete the introductory statement and release the monetary policy decision if and when it is expected and required. I don't think it is repressing views. I don't think that it is sparing alternative views. I think it's intended to arrive at the best possible common understanding and a final decision. If we have a unanimous decision it's satisfactory. It means that we are converging altogether towards a decision. It may well be that we do not have unanimous decisions and that at some stage it will have to be a majority decision, but we need a decision.

Next week the United Kingdom will be formally out of the European Union and it starts a complex time to exit. Do you think the European financial system is ready for that? Are you worried in some way for that?

President Lagarde: You know, it's one of the questions that I have asked the teams; what happens when Brexit happens? Are we all ready? Have we taken all the steps that we had to take? Have we alerted sufficiently the private sector operators to themselves take the right measures? My assessment today is that, yes, we have. Just to remind you, back in March of 2019, we activated swap lines with the Bank of England to make sure that on both sides of the Channel, there would be enough euros and sterling so that operations could continue in a smooth manner despite the implementation of Brexit. We have alerted and reminded the banks of all the necessary measures that they have to take in order to be in a good position to continue to operate irrespective of Brexit. We have good reason to believe that this is so. Don't forget that there was this high-level working group between the Bank of England and the ECB at the level of both President and Governor in order to make sure that they had checked all the boxes and covered the potential risks. You never know. There can always be a risk somewhere, but I think that in good conscience, we have looked at everything that we thought was necessary.

One more question for the climate change in Davos. At the World Economic Forum, President of the Commission, Ursula von der Leyen, said how important the fight for Europe against climate change is. The Bank for Settlements has said it has the same view but we are against a green QE programme. What is your view on this issue?

President Lagarde: I very strongly support the President of the Commission in that respect, and in many respects, for that matter. We are taking steps and we have taken steps already in order to play the role that we should play, concerning the fight against climate change. We will look as part of the strategy review at what options we have to be even more intrusive, more active in relation to the corporate purchase plan that we have in place, and which continues to operate, as you know, because we are purchasers on a monthly basis of €20 billion. We reinvest as instruments come to maturity. We will look at that and see how we can play a role in accordance with our mandate, indeed. On that word, I think in accordance with our mandate indeed we have to stop the exercise, it's perfect timing.

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